The Real Estate ANALYST

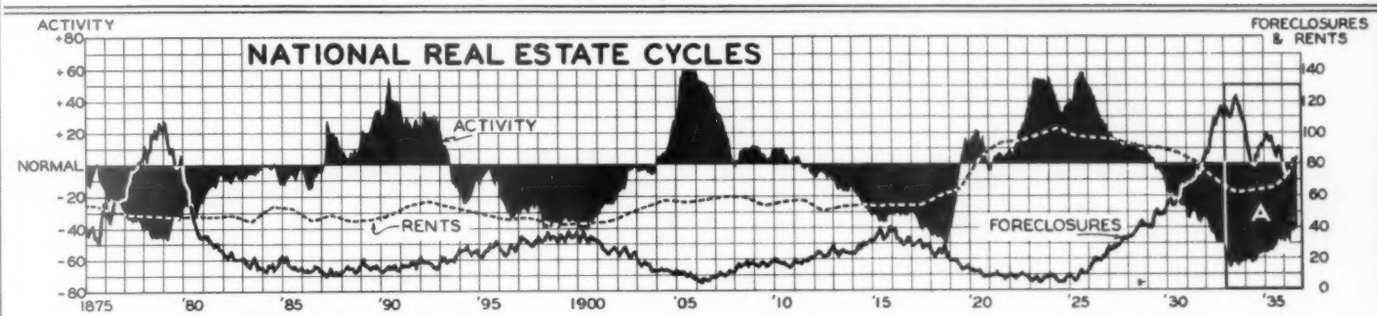
OCTOBER
1936

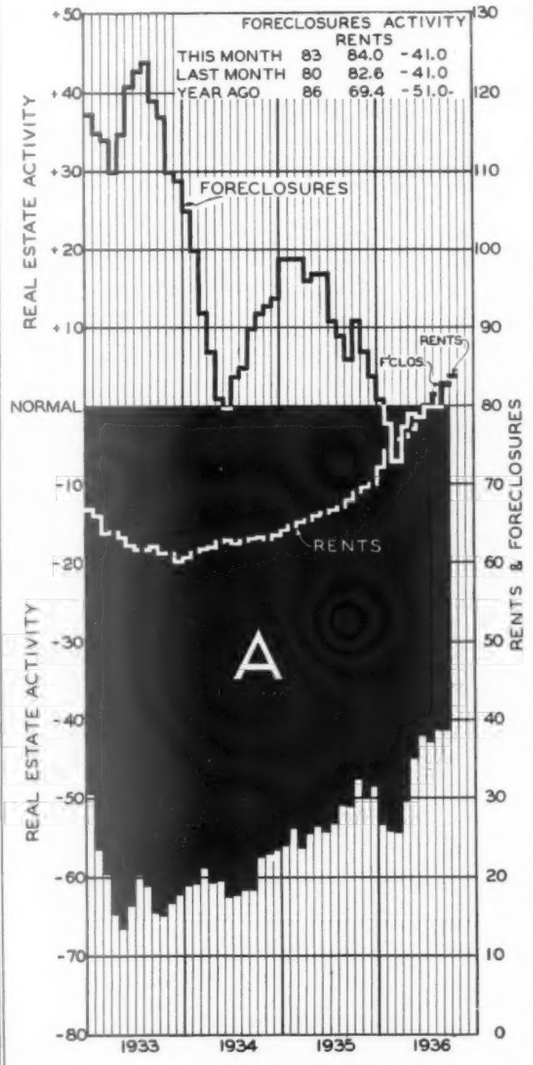
Roy Wenzlick
Editor

A concise easily digested monthly analysis based upon scientific research in real estate fundamentals and trends...Constantly measuring and reporting the basic economic factors responsible for changes in trends and values...Current Studies...Surveys...Forecasts

Copyright 1936 by REAL ESTATE ANALYSTS, Inc. — Saint Louis

Real Estate Economists, Appraisers and Counselors





THE chart above shows the fluctuations of urban real estate activity, foreclosures, and rents in the United States from 1875 to the present. The chart to the left is the last four years of the upper chart enlarged to show monthly fluctuations.

Real estate activity was spotty during the past month. In about half of all the cities in which we collect data, sales increased more than the seasonal amount, while in the other half the increase was less than the normal expectancy at this time of the year Our national index remained the same as a month ago.

Foreclosures increased slightly due to the large number of HOLC foreclosures now taking place in a large number of cities.

Residential rents continued their uninterrupted rise in our national index. This is the thirty-third consecutive month that this index has risen.

Rents are not rising with the same rapidity in all portions of the United States. Those cities which are growing most rapidly have naturally absorbed their vacancies first, and in those cities rents are now rising rapidly. Rents rise from no cause other than a shortage of the type and quality of space for which the demand exists.

Decreasing vacancy due to increasing industrial activity, with the resulting increase in rents, will gradually restore the earning power of real estate.

THE FUTURE OF INTEREST RATES

MANY of our clients are vitally interested in the future of interest rates on real estate mortgages. We have received many inquiries during the past year regarding the probable trends. We believe that if we are to estimate future interest trends it is wise first to measure trends in the past. We are not assuming, however, that the past will be repeated without change, because there are certain elements in the present picture which have not been present during the past. It will be possible, however, from a measured study of this past experience to determine those factors which have apparently been most important in controlling interest rates. Many of those factors are present today and can be forecast with reasonable accuracy for the next few years. The final question becomes, then, the influence of the new factors in modifying those trends which would otherwise normally be expressed.

In an effort to reconstruct the past experience on interest rates we have gone to the records and have examined the interest rates carried on all real estate mortgages each quarter made on Manhattan Island from 1879 to the present. The data were then adjusted for seasonal fluctuations. In this study all mortgage extensions, consolidations, and agreements were eliminated, but purchase money mortgages were retained in the final tabulation after considerable thought. We realize that the inclusion of purchase money mortgages in a period like the present increases the percentage of mortgages made at lower rates of interest, as it is quite apparent from our figures that during the past few years a large number of mortgage institutions have been selling properties with a heavy purchase money mortgage at a rate of interest much below the rate they would accept on a new loan. This was also true to some extent in the early nineteen hundreds when property accumulated during the big depression of the nineties was being liquidated. It apparently was not true to the same extent after the great depression of the seventies,although at the present time we are not prepared to say why.

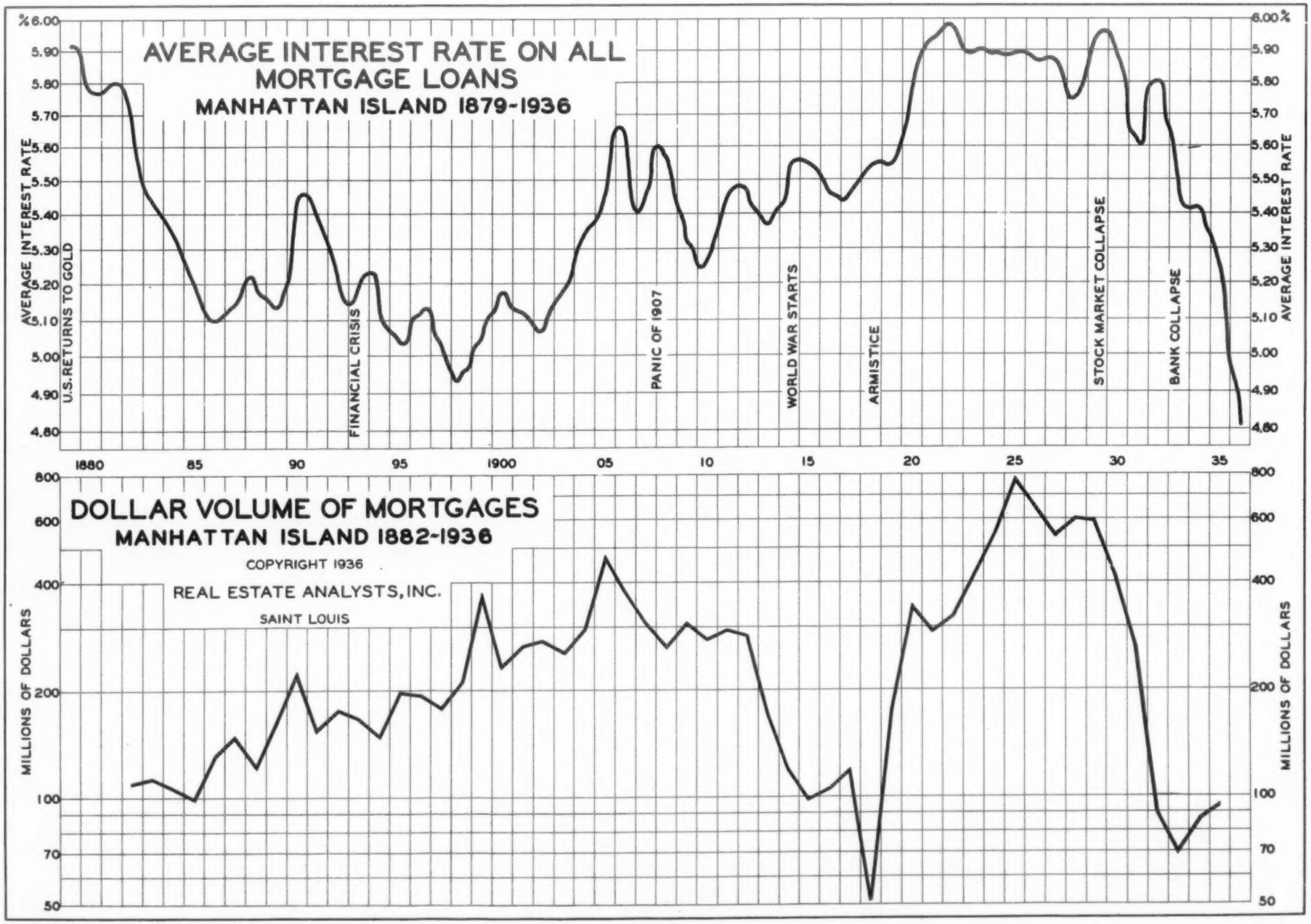
The question which probably arises first in regard to this study is why Manhattan Island was selected. It is certainly not typical in the size of properties and in many other features of the other large cities of the United States. Comparatively few HOLC mortgages are included in the totals, and very few of the mortgages are insured under the FHA.

Our reasons for selecting Manhattan Island were:

1. The base records were readily available for detailed study over the entire period.

2. Mortgage money, unlike real estate, is liquid and can seek the most favorable market. An increase in the amount of mortgage money can flow into any market where the rate is high in relation to the risk and can flow out of any market where the rate is lower than the risk. This fact, we believe, causes rather similar fluctuations in various cities as national credit ebbs and flows. Local factors will have some effect in modifying minor fluctuations.

(continued on page 620)


AVERAGE INTEREST RATE ON ALL MORTGAGE LOANS
MANHATTAN ISLAND 1879-1936
AVERAGE INTEREST RATE
% 6.00
5.90
5.80
5.70
5.60
5.50
5.40
5.30
5.20
5.10
5.00
4.90
4.80
U.S. RETURNS TO GOLD
FINANCIAL CRISIS
PANIC OF 1907
WORLD WAR STARTS
ARMISTICE
STOCK MARKET COLLAPSE
BANK COLLAPSE
1880
85
90
95
1900
05
10
15
20
25
30
35
DOLLAR VOLUME OF MORTGAGES
MANHATTAN ISLAND 1882-1936
COPYRIGHT 1936
REAL ESTATE ANALYSTS, INC.
SAINT LOUIS
MILLIONS OF DOLLARS
800
600
400
200
100
70
50

(continued from page 618)

3. In so far as we know, this is the first study ever made of mortgage interest rates over so long a period. We shall follow it with others in various cities. Until other cities can be compiled we believe that it is safe to assume that the Manhattan chart - at least in its general characteristics - is roughly characteristic of the mortgage situation in other cities.

The top chart on page 619 shows the average interest rate on all mortgage loans made on properties on Manhattan Island from 1879 to 1936. This chart was prepared by averaging the rates of all mortgages each quarter through the entire period and then adjusting the figures for seasonal fluctuation. This is contrasted with the dollar volume of new mortgages recorded on Manhattan Island, shown on the chart on the lower part of the page.

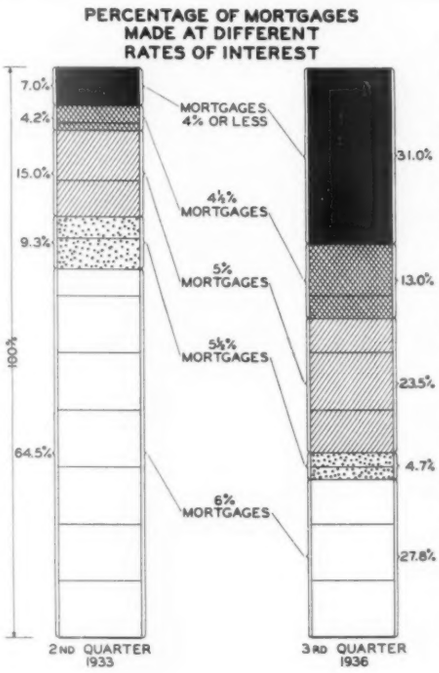
At first glance there is relatively slight agreement in the two charts, but a closer inspection does find a number of interesting similarities. From 1885 to 1890 interest rates were recovering from the rapid drops of the early eighties. The rise in interest rates was particularly rapid during the latter part of this period. This increase in interest rates was undoubtedly caused, at least to some degree, by the rapid rise in mortgage volume at that time, as shown on the lower chart. Interest rates again hit a very low spot in 1898, recovering to a temporary peak in 1900. This seems a logical result of the increasing mortgage volume from 1897 to 1899. Interest rates then went to a very decided peak in 1906, accompanying a tremendous increase in mortgage financing from 1900 to 1905.

Financial panics seem to have the tendency to drive up interest rates temporarily. This is quite apparent in the panics of 1893, 1907, and 1929.

In 1918 the dollar volume of mortgages set a new low, from which it bounded to a new all-time high in 1925. This was accompanied by a rapid rise in the average interest rate. From 1929 on, the general trend in interest rates has been down, as has been the trend in the volume of new mortgage financing.

There can be no question of the fact that the volume of new mortgage financing will increase rapidly during the next five years, simulating to some degree the rapid rise from 1918 to 1925. Will this rapid rise result in a marked upturn in the average interest rate? If it doesn't, it will be the first time over the entire period of our study that rising volume did not result in an increase in the rate of interest, as can be seen from the chart on page 619.

Another more interesting charting of these same figures is shown on pages 622-624, where, in place of showing an average rate on all mortgages, separate percentages are indicated for mortgages made at each different rate of interest. Probably the best way to understand this chart is to imagine it composed of a great many narrow bar charts,one for each quarter from 1879 to the present, like the charts on page 621. These charts show the situation in the second quarter of 1933 and the third quarter of 1936. The radical change in the percentage distribution is quite apparent.

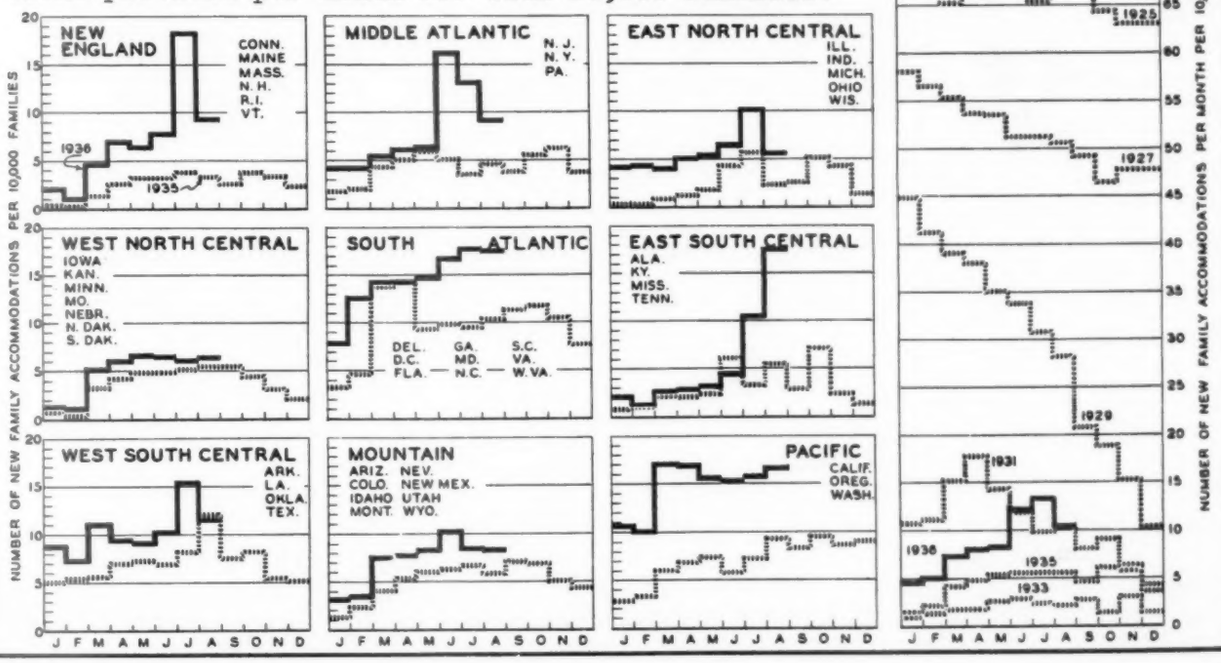


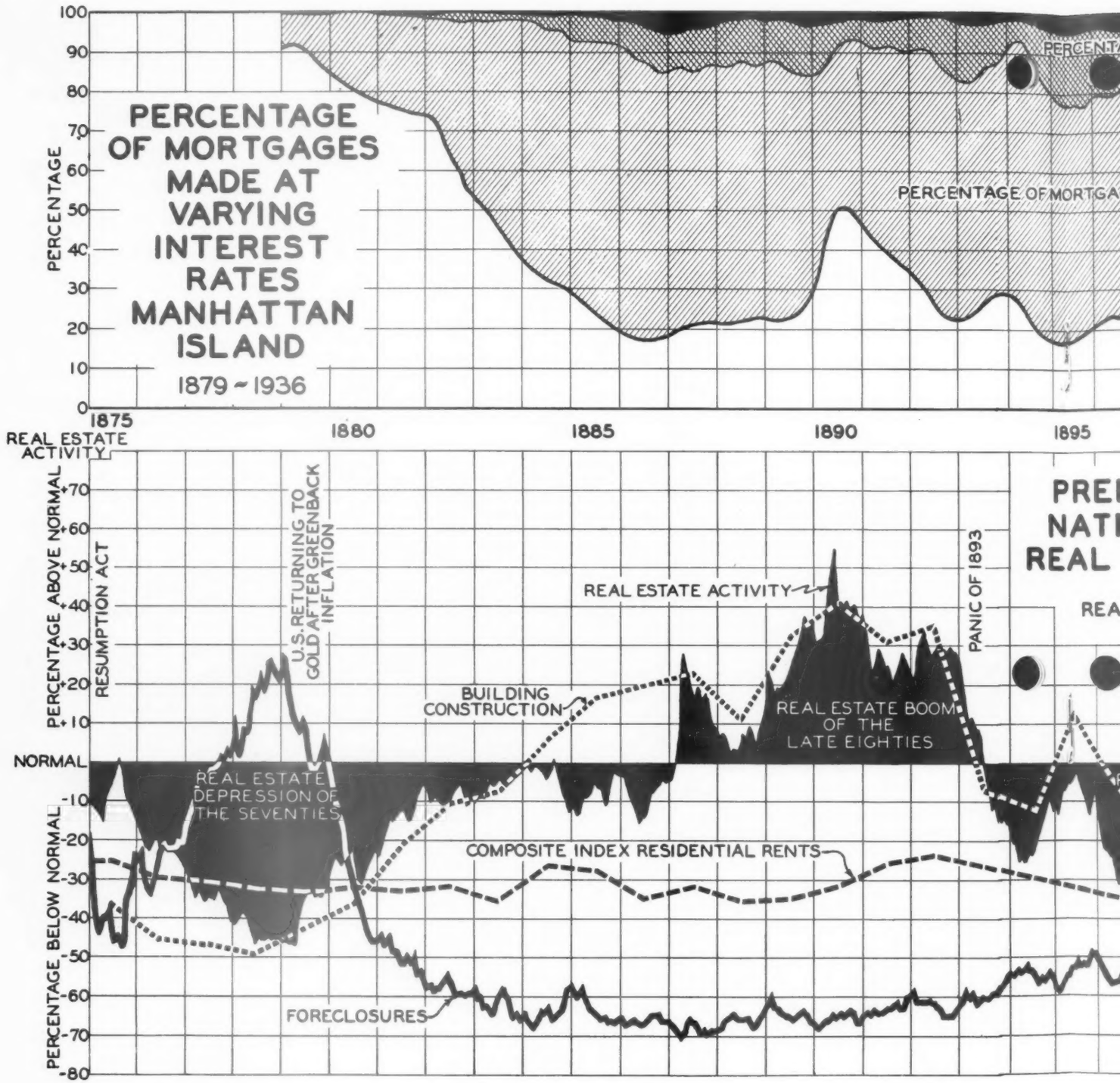
There are a number of interesting things shown by the long chart in this issue. One is the fact that 5½% mortgages were not popular in New York before 1905. Another is the fact that in the big depression of the nineties a smaller percentage of the mortgage loans was made at 6% than has been made at that figure during the present depression. Third, undoubtedly a portion of the black area in the depression of the nineties (mortgages made at 4% or less) and the present depression is due to purchase money mortgages taken back by mortgage institutions disposing of properties accumulated during the depression. These purchase money mortgages made at extremely low rates constitute an effort on the part of many mortgagees to dispose of property they consider undesirable by offering unusual inducements in interest rates to the prospective purchaser There can be no doubt of the fact that in the relatively near future the percentage of loans

(continued on page 622)

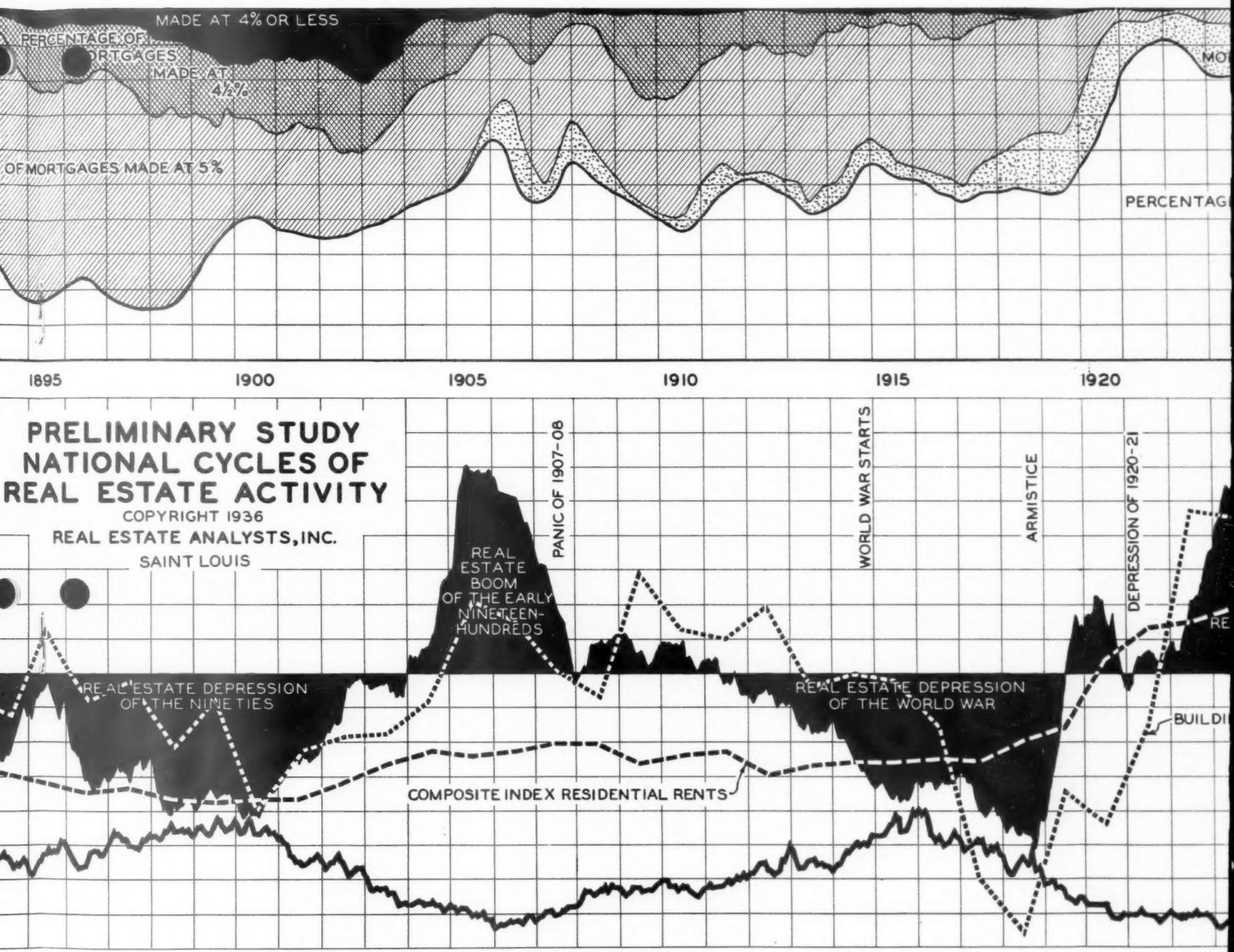
RESIDENTIAL BUILDING BY REGIONS

THE charts below show the monthly volume of residential building in various regions by months for 1935 and eight months of 1936. The tall chart at the right is drawn to the same scale as the smaller charts and compares the present volume of building in the United States with the volume for a number of past years. In each chart the volume of new building is expressed as the number of new family accommodations provided per month for each 10,000 families.

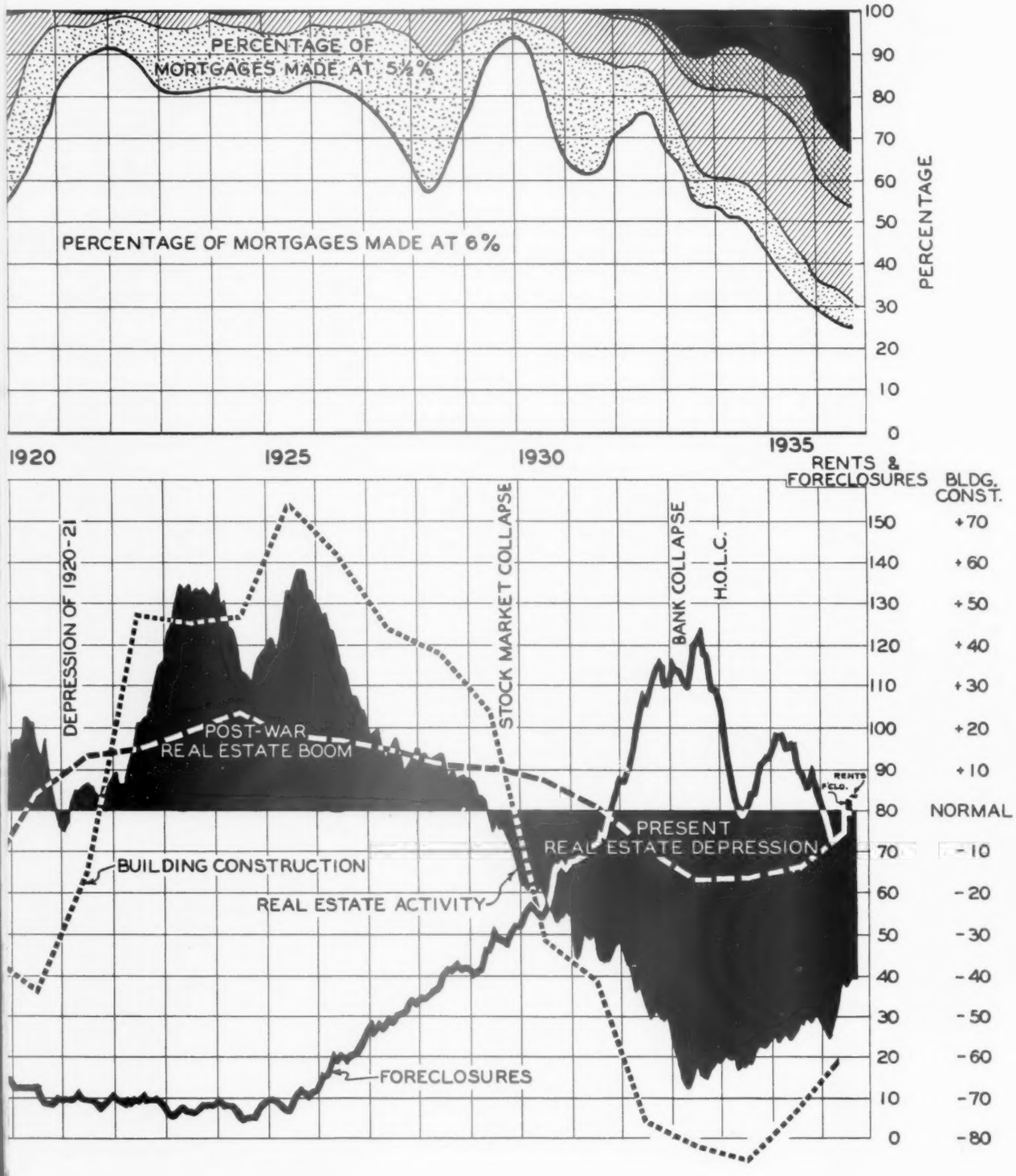




(continued from page 621)
made at 4% or less will decrease just as it did as we went into the active real estate market in the early nineteen hundreds. It seems to us that it would be extremely difficult for the government to lower interest rates on mortgages at the same time that they are encouraging larger mortgages in relation to the values of the properties. The fact that within the next



five years industry will again be absorbing in commercial loans a great deal of our excess reserves will ease the pressure on many of our lending institutions to the point where they will not compete with the same enthusiasm for mortgage loans by constantly lowering the rate and increasing the percentage to be loaned. Some general conclusions we have reached as a result of this study are as follows:



Interest rates are the result of the supply of and demand for money available for real estate financing. Any factor which would tend to increase the supply of mortgage money will have a tendency to lower the rate, and any factor which would increase the demand for mortgage money would have a tendency to increase the rate of interest. Increased earnings of real estate would make real estate more desirable as security for loans

having a tendency to increase the supply of mortgage money attracted to this field. On the other hand, an increase in rents and prices would increase the amount of mortgage money necessary, as eventually properties would carry mortgages proportional to their new values. All other things being equal, if real estate prices in the United States were to double, the demand for mortgage money within a period of from five to seven years would much more than double, due not only to the necessity of financing these properties at the new price levels but also to the financing of the large volume of new construction which would inevitably result. It seems to us that the increase in real estate rents and values will far more than offset in its demand for increased mortgage money the increase in mortgage money which would naturally flow to real estate because of its better earning position. This will be particularly true because of the fact that, at the time when real estate is increasing in price, industry, due to greater industrial production, will be back in the active borrowing field. These factors lead us to believe that the general trend in the next five years will be up, but we rather doubt whether interest rates within the next ten-year period will equal the rates in 1922.

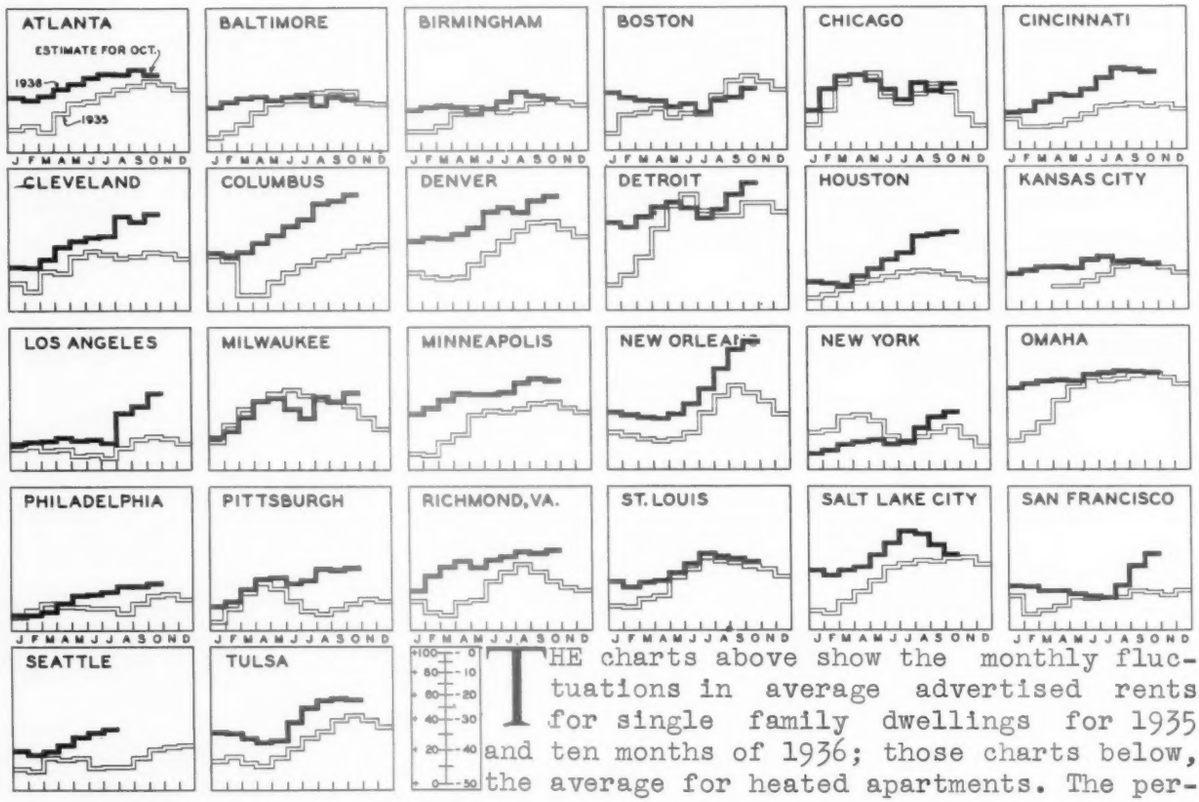
What is the effect of interest rates on rents and values? We believe that a low interest rate will tend to lower rents. The reason for this, of course,is that, as it becomes possible to build new buildings which will rent for a sufficient amount to pay a return on the investment at the lower interest rate, these buildings will offer direct competition to buildings built and financed with higher rate money. An increase in the interest rate will tend to increase rents by making it unprofitable to build until rents have advanced to the point where they will apparently show a return on the investment at the higher interest rate.

Over a long period of years we believe that the fluctuations of interest rates do not have a great effect on real estate values even though they do have this effect on rents. If we go into a market with interest rates much higher than their present level, these higher interest rates will not be limited to real estate mortgages but will be extended gradually to all types of loans. This will bring about a change in the capitalization rate at which all types of investments are figured. If a $25 annual yield at the present time is considered an adequate return on a very conservative $1000 bond; then if interest rates should double, $50 will be the normal adequate rate on a conservative bond. As this change takes place, capitalization rates on all types of investments will gradually tend to change in the same direction so that doubling the rate in a market where very much higher interest rates prevail will not succeed in doubling the value, just as a $50 income in a high interest period represents no greater amount of principal than does $25 in a lower interest period.

As soon as the mortgage rates in other cities can be measured on the same basis as the figures presented here on Manhattan, we will continue the discussion of the future of interest rates.

AVERAGE ADVERTISED SINGLE FAMILY DWELLING RENTS 1935-1936

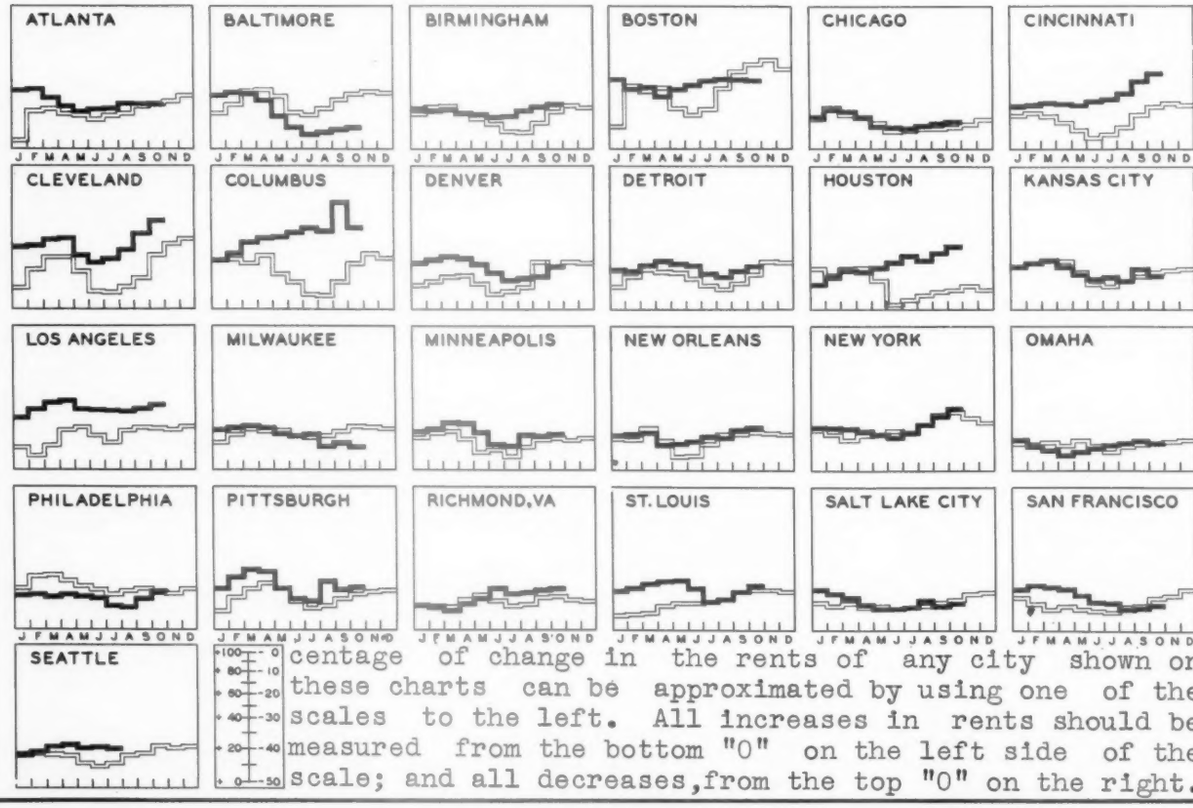
COPYRIGHT 1936-REAL ESTATE ANALYSTS, INC.



THE charts above show the monthly fluctuations in average advertised rents for single family dwellings for 1935 and ten months of 1936; those charts below, the average for heated apartments. The percentage of change in the rents of any city shown on these charts can be approximated by using one of the scales to the left. All increases in rents should be measured from the bottom "0" on the left side of the scale; and all decreases, from the top "0" on the right.

AVERAGE ADVERTISED APARTMENT RENTS 1935-1936

COPYRIGHT 1936-REAL ESTATE ANALYSTS, INC.



ADVERTISED RENTALS ON DWELLING UNITS

THE Real Estate Analyst computes the average advertised rents of residential units of various types each month in the twenty-six metropolitan cities listed below. The figures given are average rents per month per room for all units of each type, large and small, advertised in the classified columns of the leading newspapers of each city.

The average of all places advertised for rent will vary considerably from month to month due to the inclusion some months of a larger number of either high or low priced units. That the trend is definitely up in most cities is indicated by the figures below and the charts opposite.

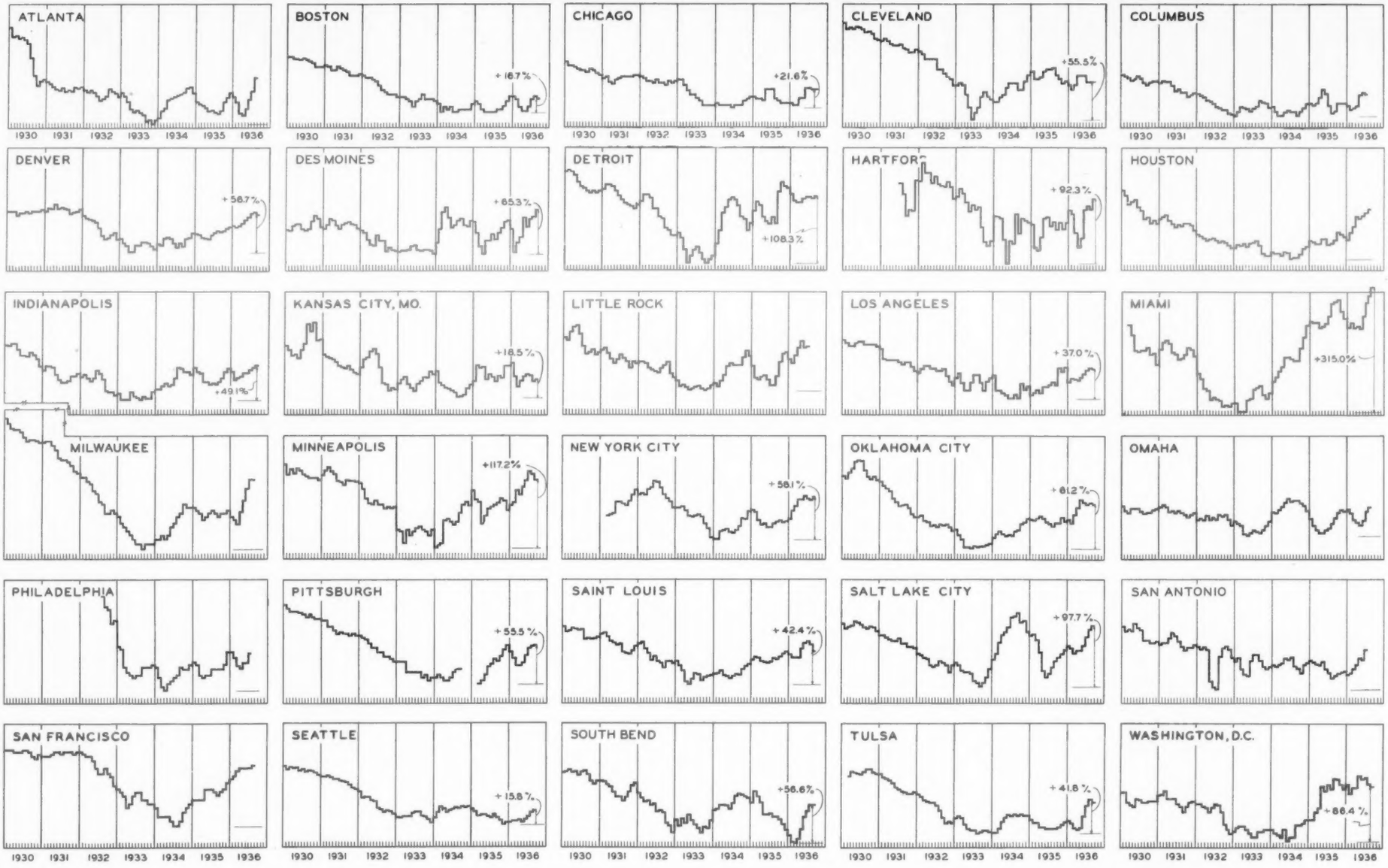
The October figures are preliminary, based on the advertisements appearing during the first two weeks of the month. In a majority of the cities these preliminary figures are above the final figures for October, 1935.

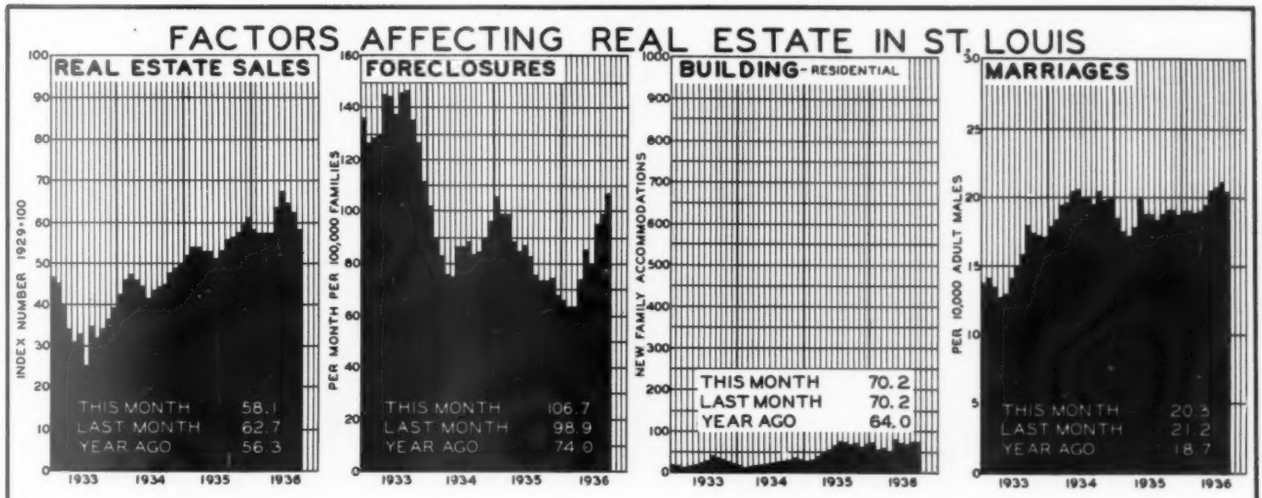
		1935			1936									
		Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	*Oct.
SINGLE FAMILY DWELLINGS	Atlanta	$7.25	$7.12	$6.93	$6.68	$6.59	$6.71	$6.97	$7.15	$7.39	$7.51	$7.50	$7.65	$7.48
	Baltimore	6.15	5.79	5.75	5.69	5.82	5.95	5.97	5.89	5.99	6.02	5.71	5.94	5.89
	Birmingham	5.22	5.15	5.08	4.96	5.03	5.06	5.03	4.87	5.00	5.18	5.43	5.33	5.22
	Boston	8.11	7.89	7.55	7.47	7.27	7.17	7.15	6.93	7.04	6.72	7.16	7.24	7.63
	Chicago	9.45	8.42	7.98	8.63	9.66	10.32	10.37	10.11	9.63	9.12	9.96	9.60	9.92
	Cincinnati	8.16	8.23	8.02	7.92	7.96	8.35	8.68	8.65	8.93	9.48	9.93	9.90	9.78
	Cleveland	8.11	8.08	7.84	7.59	7.56	7.88	8.40	8.67	8.83	8.86	9.84	9.55	9.95
	Columbus	5.45	5.59	5.61	5.42	5.36	5.44	5.71	5.95	6.23	6.42	6.98	7.03	7.30
	Denver	6.35	6.11	5.89	5.77	5.84	5.82	5.96	6.17	6.67	6.80	6.65	7.05	7.21
	Detroit	8.75	8.75	8.33	7.93	7.74	8.12	8.56	8.79	8.51	8.09	8.43	9.11	9.69
	Houston	7.24	7.10	7.01	7.00	6.92	6.84	7.20	7.47	7.81	8.09	8.86	8.90	9.05
	Kansas City	5.10	4.96	4.85	4.84	4.92	5.00	5.00	4.99	5.20	5.28	5.15	5.17	5.08
	Los Angeles	8.97	8.87	8.64	8.68	8.72	8.74	8.95	8.80	8.81	8.69	10.15	10.36	11.08
	Milwaukee	8.36	7.87	7.41	7.17	7.35	7.90	8.59	8.71	8.26	7.88	8.80	8.55	8.93
	Minneapolis	6.36	6.18	6.02	6.04	6.22	6.49	6.69	6.67	6.67	6.71	7.05	7.20	7.13
	New Orleans	5.98	5.71	5.43	5.41	5.36	5.28	5.25	5.38	5.66	6.11	6.75	7.41	7.76
	New York	12.57	11.82	11.36	10.93	11.11	11.40	11.69	11.71	11.40	11.61	12.50	13.23	13.60
	Omaha	6.59	6.45	6.22	6.14	6.27	6.34	6.38	6.36	6.57	6.62	6.69	6.66	6.65
	Philadelphia	6.01	6.02	5.78	5.46	5.46	5.52	5.79	6.01	6.03	6.11	6.30	6.30	6.38
	Pittsburgh	6.89	7.03	6.98	6.81	6.98	7.41	7.84	7.89	7.67	7.78	8.25	8.20	8.27
	Richmond	6.44	6.24	6.16	6.17	6.65	6.98	7.18	6.96	7.21	7.32	7.52	7.46	7.58
	Saint Louis	6.91	6.81	6.59	6.45	6.27	6.43	6.48	6.72	7.07	7.42	7.31	7.20	7.08
	Salt Lake City	5.82	5.83	5.33	5.49	5.33	5.49	5.58	5.91	6.30	6.70	6.60	6.26	5.94
	San Francisco	7.28	7.19	7.35	7.55	7.54	7.36	7.36	7.24	7.16	7.11	7.55	8.34	8.84
	Seattle	5.56	5.62	5.65	5.55	5.45	5.51	5.70	5.96	6.09	6.19	x	x	x
	Tulsa	7.33	7.16	6.92	6.77	6.74	6.56	6.42	6.48	7.11	7.67	7.97	8.00	7.95
HEATED APARTMENT UNITS	Atlanta	10.19	10.33	10.67	10.89	10.91	10.42	10.00	9.71	9.82	9.89	10.13	10.10	10.03
	Baltimore	11.97	12.04	12.00	11.93	12.05	12.02	11.65	10.74	10.09	9.79	9.88	9.94	9.96
	Birmingham	8.48	8.71	8.64	8.61	8.54	8.57	8.45	8.39	8.26	8.27	8.52	8.68	8.80
	Boston	13.17	13.46	12.79	12.17	11.55	11.68	11.13	11.59	11.80	12.05	12.20	12.18	12.12
	Chicago	11.15	11.35	11.66	11.85	12.26	12.14	11.86	11.25	11.23	11.14	11.32	11.47	11.52
	Cincinnati	11.24	11.40	11.28	11.26	11.36	11.47	11.45	11.40	11.57	11.71	12.01	12.81	13.30
	Cleveland	9.99	10.54	10.80	10.40	10.49	10.77	10.82	9.97	9.60	9.79	10.25	11.10	11.88
	Columbus	8.89	9.34	9.11	9.07	9.38	9.94	10.16	10.20	10.41	10.62	10.50	12.13	10.69
	Denver	10.65	10.95	10.90	10.87	11.02	11.24	11.16	10.76	10.31	9.94	10.02	10.92	10.70
	Detroit	10.22	10.87	10.86	10.49	10.40	10.70	10.93	10.79	10.65	10.27	10.05	10.32	10.60
	Houston	7.77	7.91	7.78	8.00	8.29	8.59	8.53	8.70	8.95	9.28	9.03	9.31	9.66
	Kansas City	6.67	6.73	6.77	6.88	7.00	7.11	6.86	6.61	6.48	6.51	6.40	6.79	6.52
	Los Angeles	11.23	11.17	11.31	11.87	12.31	12.79	12.82	12.33	12.32	12.28	12.21	12.36	12.57
	Milwaukee	10.10	10.09	10.00	9.88	9.95	10.02	9.95	9.64	9.51	9.60	9.02	9.15	8.98
	Minneapolis	8.81	8.76	8.82	9.18	9.29	9.59	9.57	9.13	8.58	8.50	9.00	8.95	8.99
	New Orleans	8.55	8.53	8.45	8.41	8.49	8.53	8.01	8.04	8.17	8.36	8.32	8.67	8.75
	New York	18.92	18.30	17.83	17.58	17.56	17.40	17.20	16.97	16.74	17.02	17.88	18.54	19.32
	Omaha	10.40	10.43	10.47	10.54	10.21	10.00	9.73	9.90	10.11	10.28	10.32	10.37	10.32
	Philadelphia	13.37	13.24	13.16	13.20	13.23	13.08	13.23	13.08	12.94	12.45	12.37	12.98	13.43
	Pittsburgh	9.56	9.70	9.77	9.91	10.51	10.96	10.82	9.93	9.42	9.29	10.28	9.80	9.90
	Richmond	10.07	9.96	9.87	9.70	9.69	9.41	9.75	10.01	10.53	10.29	10.31	10.41	10.42
	Saint Louis	9.81	9.81	9.74	9.79	9.94	10.17	10.37	10.38	9.95	9.26	9.34	9.69	10.00
	Salt Lake City	9.38	9.68	9.74	9.91	9.70	9.50	9.16	8.98	8.98	9.02	9.37	9.10	9.18
	San Francisco	11.33	11.41	11.82	11.83	12.01	11.93	11.83	11.41	11.02	11.01	10.67	10.73	10.78
	Seattle	10.58	10.48	10.52	10.23	10.37	10.53	10.60	10.50	10.56	10.46	x	x	x

*Preliminary
xNewspaper strike

REAL ESTATE TRANSFERS IN PRINCIPAL CITIES 1930-1936

COPYRIGHT 1936 - REAL ESTATE ANALYSTS, INC. - SAINT LOUIS



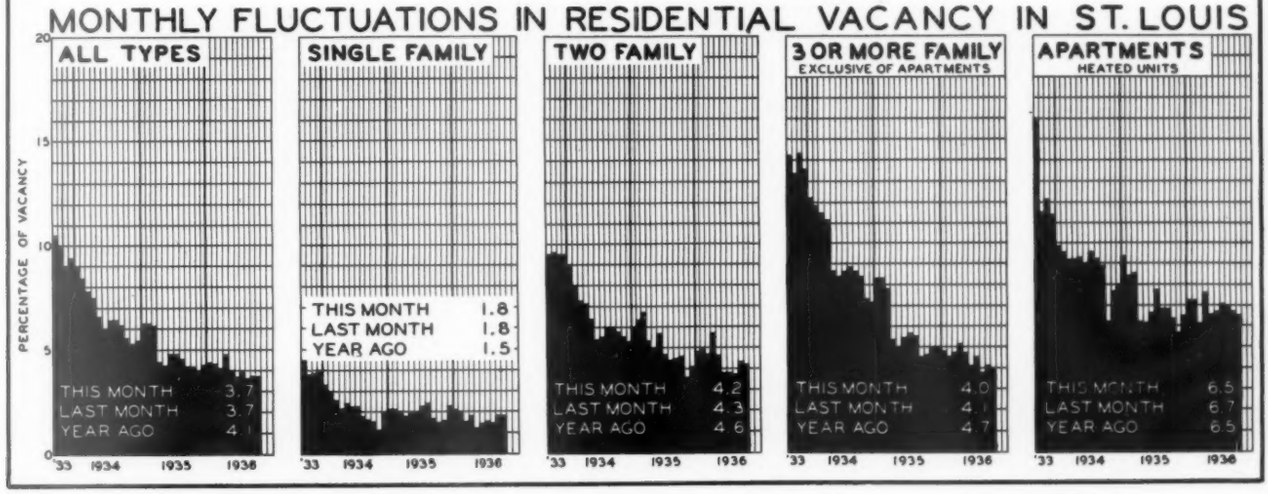


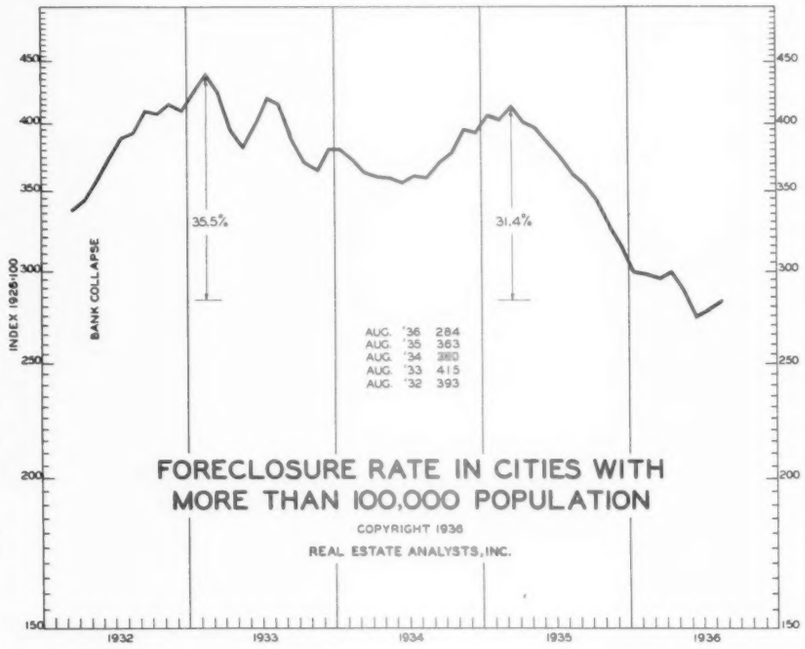
REAL Estate Analysts, Inc., has always made an intensive study of Greater Saint Louis on the assumption that an exhaustive, precise study over a long period of years of all factors affecting real estate in a single representative community is often of greater value in determining the sequence of events in collapse and recovery than is a more general study of the entire country. In addition to the charts on this page, other Saint Louis figures are shown on pages 626, 627, and 628.

Total residential vacancy in Saint Louis showed no pronounced change during the period from September seventh to October ninth.

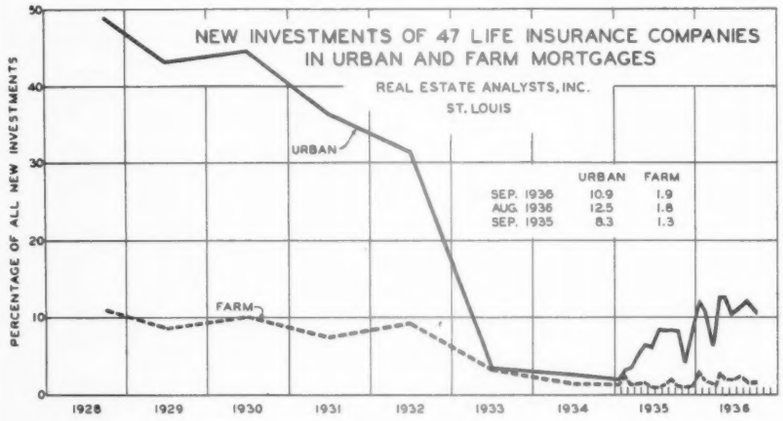
The number of vacant residential units for November, 1932, and for October of the last four years is shown in the following table:

Date	Number of Vacancies	Percentage of Vacancy
November, 1932	28,207	12.8
October, 1933	22,460	10.0
October, 1934	12,500	5.6
October, 1935	9,030	4.1
October, 1936	8,200	3.7

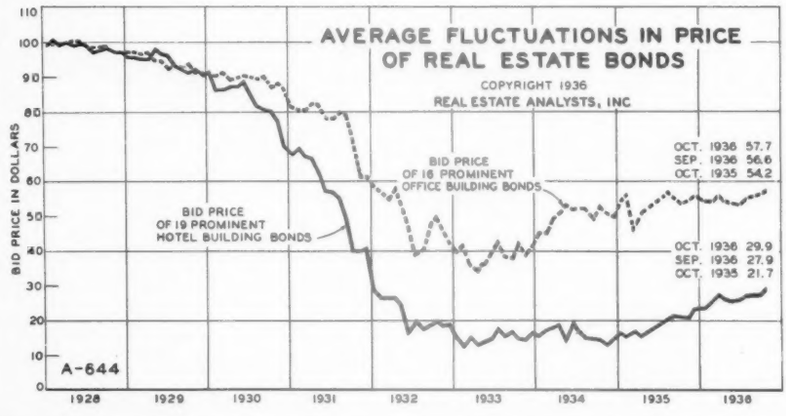




THE chart to the left shows the monthly fluctuations in the foreclosure rate in cities having more than 100,000 population. This chart is corrected for seasonal fluctuation and is based on the compilations made by the Home Owners' Loan Corporation. It will be noticed that the drop in foreclosures has been temporarily halted by the foreclosures of H.O.L.C. loans. The August figure is 35.5% below the 1933 peak.



THE chart to the left shows the percentage of all new investments each month invested in urban and farm mortgages by forty-seven life insurance companies. Urban mortgages are slowly coming back into favor. There is no decided trend regarding farm mortgages.



THE chart to the left shows the fluctuations in the bid prices of real estate bonds. There has been a pronounced trend upward in hotel bonds during the past year and a half. Office building bonds are not showing as pronounced a trend.